

Budget Preview 2026

Federal Budget 2026

Budget Preview FY26: Fiscal Discipline to Continue Under IMF Oversight

- The federal budget for FY26 is set to be announced on June 10, 2025. This budget would be in line with the IMF guidelines and is expected to continue fiscal consolidation.
- The government has committed with IMF to continued fiscal consolidation in the FY26 budget to ensure debt sustainability, targeting a primary surplus of 1.6% of GDP—its third consecutive surplus in over 20 years. Any central bank dividend exceeding 1% of GDP will be used to reduce debt.
- In the upcoming budget, the Federal Board of Revenue (FBR) revenue target is expected to be set at PKR 14.3tn. Tax-to-GDP ratio would be set at 11.3% FY26B compared to 10.3% during FY25E. The current expenditure for FY26B is projected to be rise to PKR 16.2tn. The overall budget deficit is estimated at PKR 6.5tn. GDP growth is projected at 3.6% in FY26B, inflation to rise to 6.29% and CAD of USD 1.5bn is estimated.
- Key revenue measures include GST on petroleum products, increase in the PDL, tax on retailers and wholesalers, likely introduction of pension tax, withdrawal of exemption from FATA/PATA region. Relief measures may include decrease in income tax rates on salaries individuals or increase in exempt income limit, housing finance subsidy, and some rationalization in super tax.

Projected Fiscal Dynamics for FY26

The Government is likely to present Pakistan's FY26 Federal Budget on June 10, 2025, this budget would be largely aligned with IMF guidelines and governments commitment to IMF about the continuation of fiscal consolidation to ensure debt sustainability, the government is targeting a primary surplus of 1.6% of GDP – this would be the third consecutive primary surplus in two decades. Any dividend received from the State Bank of Pakistan exceeding 1% of GDP will be used to reduce debt.

Key fiscal targets expected for FY26

In the upcoming budget, the Federal Board of Revenue (FBR) revenue target is expected to be set at PKR 14.3tn. Tax-to-GDP ratio would be set at 11.3% FY26B compared to 10.3% during FY25E. The current expenditure for FY26B is projected to be rise to PKR 16.2tn. The overall budget deficit is estimated at PKR 6.5tn. GDP growth is projected at 3.6% in FY26B, inflation to rise to 6.29% and CAD of USD 1.5bn is estimated.

IGI Research

Sakina Makati

sakina.makati@igi.com.pk

Tel: (+92-21) 111-234-234 Ext: 810

Laraib Nisar

laraib.nisar@igi.com.pk

Tel: (+92-21) 111-234-234 Ext: 974

Additional measures to increase revenue target

The government is considering some measures to increase the revenue and create some fiscal space, these measures include but are not limited to implementing a GST of 3%-5% on petroleum products which is expected to add approximately PKR 150bn to the national exchequer. The government might also introduce a tax on pension which is expected to generate approx PKR 55bn in revenue for the government. Besides this the duty and tax exemptions on FATA/PATA region are likely to be withdrawn in the upcoming budget. Government might also increase the PDL on petroleum products from PKR 80/liter to PKR 100/liter.

Possible relief measures under consideration

The government is considering some measures to provide targeted relief, these measures may include a possible reduction of 2.5% on income tax rates on all income tax brackets or increase in the exempt income tax limit of PKR 600,000/annum to PKR 1,200,000/annum. There is high likelihood of the government resuming the low-cost housing finance scheme and providing mark-up subsidy on upto 200,000 housing units. Rationalization of super tax is also under consideration in the upcoming budget. In addition to this, inflation adjustment to the unconditional cash support program – Benazir Income support program is also on cards.

Mark-up payments and non-tax revenue likely to decline

The total outlay of the budget FY26 is expected to be around PKR 16.9 trillion, down by PKR 2 trillion compared to the FY25 budget, this is a notable reduction of 10.6%/y. This reduction is attributable to an estimated decline of PKR 1.3 trillion in mark-up payments during FY26, which would be due to a substantial decline in interest rates. The mark-up payments for FY26 are estimated to be around PKR 8.5 trillion compared to PKR 9.8 trillion originally budgeted in FY25. However, the non-tax revenue is also expected to decline mainly due to a reduction in SBP profits owing to the declining interest rates.

Exhibit: Historical Fiscal Account Summary

PKR bn	FY21A	FY22A	FY23A	FY24A	FY25B	FY25E	FY26B
FBR Revenue - Taxes	4,764	6,143	7,169	9,311	12,370	11,829	14,307
Non Tax Revenue	1,505	1,185	1,711	3,050	4,845	4,661	4,000
Gross Revenue	6,269	7,328	8,880	12,361	17,215	16,489	18,307
Less: Provincial Share	-2,742	-3,589	-4,223	-5,264	-7,438	-7,042	-8,584
Net Revenue Receipts - Federal Govt.	3,527	3,739	4,657	7,098	9,777	9,447	9,723
Current Expenditure	6,349	8,452	10,867	14,073	17,003	15,652	16,209
Mark-up payments	2,750	3,182	5,831	8,160	9,775	9,128	8,685
Development Expenditure and Lending	789	701	890	732	1,000	1,000	1,065
Total Expenditure	7,245	9,350	11,333	14,823	18,277	17,067	17,370
Federal Budget Deficit	-3,718	-5,611	-6,676	-7,725	-8,500	-7,620	-7,648
Provincial Surplus	314	351	154	518	677	1,331	1,185
Overall Fiscal Balance	-3,404	-5,260	-6,522	-7,207	-7,283	-6,289	-6,463
Primary Fiscal Balance	-654	-2,065	-691	953	2,492	2,839	2,223

Source: Ministry of Finance, IGI Research

Key Revenue Measures

Key Revenue Measures		
S. No	Proposed Measures	Remarks
1	Imposition of Carbon Tax	As per news sources, government is considering imposing PKR 5/liter carbon levy on petroleum products.
2	Increase in PDL	As per news sources, government is considering an increase in PDL from PKR 80/liter to PKR 100/liter.
3	Imposition of GST on petroleum products	The government in the upcoming budget is considering to impose GST of 3-5% on all petroleum products.
4	Imposition of FED on ultra-processed foods	The government is considering to impose 5% FED on 50 different types of ultra-processed food items, which would include confectionary items, snacks, biscuits, and beverages.
5	FED on tobacco products	As per the news sources, the government is considering to increase FED on tobacco products by 25%.
6	Increase in FED on fertilizer products	In the upcoming budget, the government might increase the FED on fertilizer products by 5%.
7	Withdrawal of tax exemption from FATA/PATA region	The government in the last budget had given an extension to FATA/PATA region on the tax exemption, but it is expected that this tax exemption would be withdrawn in the upcoming budget.
8	Fixed monthly tax on retailers	The government is considering imposition of fixed tax on retailers to the tune of PKR 20,000 (large retailers) and PKR 10,000 (small retailers).
9	Tax on pension	Imposition of tax on pension income above certain threshold is also under consideration in the upcoming budget.
10	Increase in GST on luxury items	Government is considering an increase in GST on luxury items like aircrafts, ships, jewelry, appliances, and high-end mobile phones.
11	Agriculture Income Tax	The government in alignment with IMF guidelines is all set to implement agriculture income tax in FY26 - this would likely be announced by the provinces as this is a provincial subject.

Key Relief Measures

Key Relief Measures		
S. No	Proposed Measures	Remarks
1	Reduction in tax on all salary tax brackets	As per the news sources, a proposal to reduce the tax rates on all salary tax brackets is under consideration by the government. All tax brackets can be reduced by 2.5%
2	Extension in salary limit for exempt income	As per the news sources, the government is also considering to increase the exempt income tax limit from PKR 600,000/annum to PKR 1,200,000/annum.
3	Decline in Super Tax	The government is also considering to reduce the super tax on corporate income in a phased manner, as per the news sources the government might announce a 2% decline in super tax in FY26 Budget, which would bring the super tax to 8% from 10%.
4	Housing finance subsidy	As per some news sources, government is considering a proposal to announce a mark-up subsidy for house loans up to 200k units.
5	Property Advance Tax	The government is considering slashing the property advance tax rate to 2% for sale of property and 1% for purchase of property.
6	Duties on imported vehicles	In line with the IMF guidelines, the government is considering to reduce the duties on imported vehicles and a 40% tariff premium on used imported vehicles will be reduced by 10% annually.
7	Increase in age limit of used imported vehicles	The government is also considering to increase the age limit of used imported vehicles from 3 years to 5 years.
8	Restoration of final tax regime for goods exporters	Restoring the 1% final tax regime for exporters—replacing the existing 29% normal tax rate—would greatly enhance the profitability of export-driven industries, especially the textile sector.
9	Inflation adjustment in BISP	The government is likely to announce an inflation adjustment in the unconditional cash transfer program - Benazir Income Support Program.
10	Reduction in sales tax on packaged milk	The proposals regarding a possible reduction in the sales tax on packaged milk is also under consideration by the government for announcement in the upcoming budget.

Sector Dynamics in Federal Budget FY26: Anticipated changes and Potential Impacts

FY26 Budget Proposals			
Sector	Proposed Measures	Remarks	Impact
Capital Markets	1. Increase in CGT Tax	1 Increase in capital gain tax by 2.5% to 17.5% for filers and increase of 5% from 30% to 35% for non-filers.	Negative
	2 Increase in tax on dividend	2 Withholding tax on dividend for filers and non-filers be increased by 2.5%-5.0%. The tax on filers currently stands at 15% and non-filers pay a 30% WHT on dividends.	Negative
	3 Removal of tax on bonus shares	3 It is also proposed that the tax of 10% on the value of bonus shares be withdrawn in the upcoming budget.	Positive
	4 Tax exemption on intercorporate dividends	4 Restoring the intercorporate dividend tax exemption in also under consideration for the upcoming budget.	Positive
Commercial Banks	Bring the corporate tax rate for banks in line with the standard corporate tax rate.	The banking sector effective tax rate currently stands at 54%, with 44% corporate tax rate and 10% super tax, which should be rationalized to promote equity across sectors.	Positive
Fertilizers	1. FED on fertilizers to be doubled to 10%. 2. 5% sales tax on pesticides 3. Imposition of taxes on Agriculture Income.	1. As per news report, the Government is contemplating to increase FED on fertilizers from existing 5% to 10%, which is expected to increase urea prices by PKR 200-225/bag, the impact of which will likely be borne by consumers. 2. The Government has also proposed to impose 5% sales tax on pesticides which had been earlier exempted under the Finance Act 2016. 3. Agriculture Income Tax laws have already been passed by all provinces and will be effective from July 1, 2025.	Negative to Neutral
Cement	1. Federal PSDP allocation 2. Government's low-cost housing scheme 3. Reduction of FED on cement	1. The Government is expected to allocate PKR 900-950bn to PSDP in FY26 budget as compared to PKR 1.1tn allocated in FY25. 2. Subsidy on interest rates for loans aimed at the development of low cost housing. The Government initially plans to build 200K low-cost housing units. 3. It has been proposed that the current rate of PKR 4/kg FED on cement should be reduced.	Positive
Steel	1. Phasing out of Sales Tax Exemption for FATA/PATA regions 2. Government's low-cost housing scheme	1. GST exemption given to given to steel manufacturers in FATA/PATA regions are expected to be reduced in FY26 budget. 2. The Government's project of development 200k low-cost housing will benefit the steel sector.	Positive

Sector	Proposed Measures	Remarks	Impact
OMCs & Refinery	1. Imposition of 3-5% GST on petroleum products. 2. Imposition of carbon levy of PKR 2.5/5.0/ltr.	1. Currently, the petroleum products are GST-exempted. The proposed GST is expected to lead to an increase in petroleum product prices by PKR 8-10/ltr. 2. The imposition of carbon levy will also lead to increase in fuel prices.	Neutral to Positive
Power Generation & Distribution	Reduction in dividend rate on IPPs.	It has been proposed that tax on IPPs dividends to be reduced from 15% to 7.5%.	Neutral to Positive
Oil & Gas Exploration	0% tax credit for investments in plant and machinery.	The proposal advocates tax credit incentives to encourage companies to invest in the upgradation and expansion of plant and machinery to drive growth and efficiency.	Neutral
Autos	1. Increase in the age limit for import of used vehicles. 2. Reduction in import tariff on CBU vehicles.	1. Age limit for import of used vehicles is proposed to be increased to five years from the current 3 years. 2. Gradual reduction in import tariffs on CBU vehicles to 15% by 2030.	Negative
Consumer Products	1. 5% FED on ultra-processed foods 2. FED on sugary and energy drinks 3. Reduction in GST on packaged milk	1. The Government is considering to implement a 5% FED on processed foods such as frozen foods, chips, ice cream, etc. 2. FED on sugary drinks is contemplated to be increased to 40% from the current 20%. 3. The Government has been proposed by the relevant authorities to reconsider the 18% GST on packaged milk as the rise in prices have impacted the affordability for consumers.	Neutral to Positive
Technology & Communication	Extension of final tax regime for 10 years (2025-2035).	The current final tax regime under which export revenues are taxed at a reduced WHT rate of 0.25% is set to expire in Jun-26. It has been proposed to extend this regime for 10 years.	Positive
Pharma	Restore zero-rated regime for pharmaceuticals.	Currently, the pharmaceutical products are subject to 1% GST without input tax adjustment, which has been proposed to be restored to zero rated regime.	Positive
Real Estate	Reduce advance tax on the purchase and sale of property	Currently 3-4% advance tax is being collected on property transactions. It has been proposed to reduce it to a flat rate of 2% and 1% on the sale and purchase of property respectively.	Positive
Textile	Restoration of final tax regime for exporters at 1% of revenue	This measure, if implemented, will lead to the abolishment of 29% corporate tax rate on export-oriented sectors, which would significantly improve profitability.	Positive
Tobacco	Increase FED on tobacco products	It has been proposed to increase the FED on tobacco products to 75%. Moreover, stricter measures are expected to be adopted to reduce smuggling and illicit trade.	Negative

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Contact Details

Equity Sales

Zaeem Haider Khan	Head of Equities	Tel: (+92-42) 35301405	zaeem.haider@igi.com.pk
Syeda Mahrukh Hameed	Regional Manager (North)	Tel: (+92-42) 38303564	mahrukh.hameed@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Faraz Naqvi	Branch Manager (Karachi)	Tel: (+92-21) 111 234 234 Ext: 826	faraz.naqvi@igi.com.pk
Shakeel Ahmad	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	shakeel.ahmad1@igi.com.pk
Asif Saleem	Equity Sales (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Equity Sales (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk

Research Team

Abdullah Farhan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Sakina Makati	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 810	sakina.makati@igi.com.pk
Laraib Nisar	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 974	laraib.nisar@igi.com.pk

IGI Finex Securities Limited

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Corporate member of Pakistan Mercantile Exchange Limited

Website: www.igisecurities.com.pk

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780

Lahore Office

Shop # G-009, Ground Floor,
Packages Mall
Tel: (+92-42) 38303560-69
Fax: (+92-42) 38303559

Islamabad Office

3rd Floor, Kamran Centre,
Block- B, Jinnah Avenue, Blue Area
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Faisalabad Office

Office No. 2, 5 & 8, Ground Floor, The
Regency International 949, The Mall
Faisalabad
Tel: (+92-41) 2540843-45

Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road
Tel: (+92-68) 5871652-3
Fax: (+92-68) 5871651

Multan Office

Mezzanine Floor, Abdali Tower,
Abdali Road
Tel: (92-61) 4512003, 4571183

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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